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MEMORANDUM FOR THE RECORD

SUBJECT : Central Intelligence Agency and Department of the Navy Basic Understandings in Connection with Procurement of Supplies and services by Project AQUATONE

Reference (a) : Dept. of the Navy (CNO) ltr to DCI dtd 28 May 1957

Reference (b) : DCI ltr to SECNAV dtd 4 June 1957, signed by Allen W. Dulles (TS-164248)

1. References (a) and (b) represent the basic agreement between the Central Intelligence Agency and the Department of the Navy with respect to the utilization of special CIA contractual mechanisms to procure certain supplies and services required by the Navy. Certain of such supplies are presently under procurement by CIA for the Navy under Contract No. NY-B-5111C with [REDACTED] and Contract No. NY-A-501 with [REDACTED] It is anticipated that Navy requirements hereunder will extend to several additional suppliers, all presently in the AQUATONE supplier complex.

2. The basic CIA project for the above referenced procurements is Project AQUATONE. The purpose of this memorandum is to set forth certain basic understandings with reference to procurement to be undertaken on behalf of the Navy by CIA for security reasons.

3. Basic general understandings are as follows:

A. The Navy will provide necessary funds for the required procurements and will furnish to CIA written requirements for the procurement guidance of CIA. Such written requirements will be authenticated on the part of the Navy by the signature of Captain W. E. Sweeny, USN, or Lt. Comdr. John W. Holcomb, USN, as the representatives of the Bureau of Aeronautics. As of the present time, \$1,000,000 has been transferred by the Navy to CIA for procurement of the various supplies and services desired by the Navy.

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B. CIA will implement the requirements set forth in writing by the authorized Navy representative by negotiation of a contract, or contracts, for delivery of the required services and supplies. To assure mutual understanding, the authorized Navy representative will certify that each proposed contract is consistent with and in fulfillment of previously stated Navy requirements.

C. The policies and procedures to be followed in connection with contracts negotiated on behalf of the Navy by CIA shall be the same policies and procedures in effect on CIA contracts for similar procurements under Project AQUATONE. Requirements set forth by the Armed Services Procurement Regulations shall be complied with to the greatest extent possible, consistent with the unique security considerations inherent in procurements associated with Project AQUATONE.

D. The Navy and CIA shall maintain close liaison with each other on all aspects of this procurement and shall consult with each other, utilizing personnel designated for this purpose, whenever such consultation is required or indicated.

4. Specific Understandings:

A. Security: It is agreed that all aspects of security control in connection with these procurements are the responsibility and province of CIA. The Navy shall maintain close liaison with the CIA (Project) security officer on all phases of security, including access to contractors' plants by Navy personnel.

B. Contractual Authority: Contractual authority and responsibility under these contracts shall vest solely in the authorized CIA Contracting Officer executing said contract, and no agreements or contractual arrangements shall be made by the Navy in connection with the procurement under these contracts without the knowledge and written approval of such authorized Contracting Officer.

5. Implementation - CIA Responsibilities:

A. Negotiate and execute letter orders and contracts as required on the basis of written requirements from the Navy representatives to the Contracting Officer.

B. Issue to contractors, from time to time, change orders to the contracts to reflect additional or changed requirements indicated in writing to the Contracting Officer by the Navy representative (any and all changes in contract requirements or specifications, whether involving additional costs or otherwise shall be issued to the contractor ~~through~~ ¹⁶⁴²⁶⁵ the Contracting Officer).

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- C. Pay Progress payments during life of contract.
- D. Establish a secure payment procedure for vouchers submitted by the contractor.
- E. Establish in conjunction with Navy, a system of inspection and acceptance. Inspection and acceptance duties shall be the responsibility of the Navy.
- F. Arrange with the contractor for periodic reports (fiscal, financial and work progress) as required by CIA and by the Navy.
- G. Arrange with the Air Force and the contractor for an audit system utilizing cleared Air Force auditors. Such audit reports shall not enter the Navy audit system but shall be delivered directly to CIA. They shall be made available to appropriate Navy personnel for their information and advice.
- H. Arrange for delivery and shipment of completed items.
- I. Agree with the contractor and the Navy as to time and method of redetermination of the contract price (if applicable).

6. Implementation - Navy Responsibilities:

- A. Furnish written requirements as necessary for procurement guidance of CIA, including Initial Letter Contract, Definitive Contract, and specifications or other changes desired by the Navy regardless of whether or not such changes involve a change in the cost of the services and supplies.
- B. Furnish inspection and acceptance personnel.
- C. Monitor contract performance from a technical standpoint and advise the Contracting Officer accordingly.
- D. Furnish delivery and shipping instructions for completed items.
- E. Furnish certification of satisfactory contractor performance from a technical standpoint for the advice and guidance of the Contracting Officer. The Navy representative shall certify by signature of appropriate documents receipt and acceptance of equipment before payment (other than progress payment) shall be made.

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